RISK FINANCE SUBCOMMITTEE
MEETING MINUTES
Wednesday, July 16, 2003

MEMBERS PRESENT

Carol Fleskes	Department of Ecology
Kathy Gastreich	Department of Corrections
Chuck Greenough	State Board for Community and Technical Colleges
Bill Henselman	Department of Transportation
Carole Mathews	Department of Labor and Industries
Diane Perry	Washington State Patrol
Stewart Sawyer	Acordia Northwest
Jim Smego	Department of Natural Resources
Angela Terry	Willis of Seattle

MEMBERS ABSENT

Robin Campbell	Office of Financial Management
Linda Dunn	Office of the Attorney General
Chris Freed	Department of Licensing
Bernie Friedman	Department of Social and Health Services
Paul Mueller	Western Washington University
Stephen Simmons	Department of Social and Health Services

OFM STAFF PRESENT

Nancy Heyen
John Nicholson
Betty Reed
Gary Robinson

CALL TO ORDER/INTRODUCTIONS/APPROVAL OF MINUTES

Carole Mathews, Chair, called the meeting to order at 1:35 p.m. Meeting attendees introduced themselves. A motion was made and seconded to approve the meeting minutes from April 16, 2003 and June 9, 2003. The motion passed.

PRESENTATION BY MARTIN LEWIS

Martin Lewis, actuary with Tillinghast, presented materials and discussion on cost allocation formulas.

Why bother with cost allocation?

1) To reduce losses – hoping to provide incentive for loss control;
2) Equity – try to charge agencies somewhat consistent with their loss expectation.

Symptoms of a suboptimal system:

1) Lack of understanding – if participants don't understand how the system works there is something wrong;
2) Too much volatility – premiums going up and down;
3) Too much or too little risk sharing;
4) System set up to change or test the limit of number of years experience used

Current System: Uses five years of losses. The latest five accident years based on reported losses and case reserves are set up by individuals adjusting the claims. The number of FTEs sets the exposure component. There is a credibility component – DSHS, DOC, DOT, and WSU all have the credibility.

Trade-offs –

1) Response vs. Stability
2) Equity vs. Simplicity

The simplest would be based on the number of employees, but not equitable because loss experience is not considered.

Martin explained that there is nothing wrong with the current system. The parameters are the problem – 1) limiting loss and 2) stability vs. responsiveness – outside five-year window – how far would you go back for accident losses? Agencies with no losses get no weight because they are so small. If an agency has not had a claim in ten years, how should this be addressed? Could pool together every agency that is smaller than DOT, DOC, DSHS, and WSU. Or change the loss limit. Get rid of the $1 million loss and raise it to $5 million, $10 million, or unlimited.

Martin explained the analysis worksheet.

Recommendations by the Actuary

1) Get rid of loss limitation
2) Bring in report year to reflect older losses by combining accident years and report years
3) Pool smaller agencies with loss experience – cuts down on all the entities -- have three big ones, five middle-sized ones, and all others.
4) Put a cap on year-to-year changes to promote stability
5) Set up formula so it is easy to change and test the sensitivity cap – need to be able to easily test the formula.

NEXT MEETING

The next meeting is scheduled on Wednesday, October 15, 2003, 1:30-3:30 p.m.

ADJOURNMENT

The meeting adjourned at 3:40 p.m.